SONY

ANNUAL REPORT

OCTOBER 31, 1968

SONY CORPORATION

(SONY KABUSHIKI KAISHA)

TOKYO, JAPAN

HIGHLIGHTS

For the years ended October 31

(Thousands of U.S. Dollars)

	1968	1967	1966
NET SALES:			
Domestic	$83,767	$67,509	$52,669
Export	114,047	94,722	77,720
Total	197,814	162,231	130,389
NET INCOME	$12,528	$11,811	$7,631
Per American Depositary Share*	$1.933	$1.823	$1.178
NUMBER OF EMPLOYEES	10,617	9,073	8,100

* Each American Depositary Share represents ten shares of Common Stock. Per share amounts are based on the average number of shares outstanding during each period, adjusted for all stock splits and stock distributions.

TO OUR ADS SHAREHOLDERS:

The fiscal year which ended October 31, 1968 has been an excellent year for SONY. The consolidated net sales reached new highs with favorable sales volume increases in all of the company's major product lines. The consolidated net income also established a new record in spite of heavy research and development expenditures during this fiscal year. At the same time SONY succeeded in developing such epoch-making new products as the entirely new color picture tube "Trinitron", the new magnetosensitive semiconductor "SONY Magnetodiode" (SMD), a new Magnetic Scaling System and an ultra small "Electret IC Microphone" having the same capacity as the condenser microphones used at broadcasting studios. In October 1968 SONY successfully introduced into the Japanese market a "Trinitron" 12-inch all transistor Color TV set.

The consolidated net sales for fiscal 1968 were $197,814,000, a 22 percent increase above the $162,231,000 net sales in fiscal 1967. The consolidated net income for fiscal 1968 was $12,528,000, compared with $11,811,000 in fiscal 1967, an increase of 6 percent. Earnings per ADS were $1.933 compared with $1.823 in the preceding fiscal year. Export sales increased 20 percent and accounted for 58 percent of total sales. Domestic sales increased 24 percent and accounted for 42 percent of total sales.

Cash dividends for the six months of operations which ended October 31, 1968 amounting to 20.9¢ per ADS were paid to ADS holders of record as of that date. Thus, total cash dividends of 41.6¢ were paid for each ADS in fiscal 1968.

Sales of tape recorders increased 9 percent over the previous fiscal year and accounted for 32 percent of net sales. Almost all models including stereo units which feature a truly automatic tape reversing system as well as compact cassette sets showed increases in sales volume. The company's leadership in developing and manufacturing high quality tape recorders was further strengthened with the introduction of a number of new models such as a 4-track stereo cassette tape recorder and an 8-track stereo cartridge tape recorder. Also, SONY has just started the sale of a new cassette tape recorder in Japan. Built into this tape recorder is SONY's newly developed ultra small "Electret IC Microphone", which has the same capacity as the condenser microphones used at broadcasting studios. In addition, this tape recorder is equipped with an end of tape alarm system.

The sales of radios increased 16 percent over the previous fiscal year and accounted for 18 percent of net sales. SONY's quality performance transistor FM sets contributed significantly to the continuing growth of this product line. In response to the growing and diversified demand for SONY's radios, during this fiscal year many new models were marketed. Among the new radio models placed on the market by SONY were a new solid state "DIGIMATIC" clock radio and two new types of integrated circuit (IC) radios. Both the "DIGIMATIC" clock radio and the new IC radios met with immediate acceptance. In addition, SONY introduced into the Japanese market an extremely high quality all wave transistor radio "World Zone", which is capable of receiving broadcasts from anywhere in the world.

The sales of TV receivers increased 9 percent over the

previous fiscal year and accounted for 18 percent of net sales. The sales volume of TV receivers in the U.S. market has gone up markedly due to the ever increasing demand for SONY's personalized transistor TV. In this fiscal year SONY marketed both in Japan and in the U.S. a new 7-inch portable black-screen TV set as well as a new 11-inch TV set which has a snap-on smoked filter. These models further diversify and make more competitive SONY's line of transistorized TV receivers.

In April 1968, the company's continuing research and development activities in the field of new color picture tubes enabled SONY to announce "Trinitron" an entirely new color picture tube, which employs a single electron gun and "Aperture Grill" (a new color separation system). In October 1968, SONY successfully introduced into the Japanese market a "Trinitron" 12-inch all transistor Color TV set. This new color TV set immediately gained unusually high acceptance due to its brighter, sharper picture, better contrast and simpler adjustment than conventional color TV sets. This set will be marketed in the U.S. in the summer of 1969. Also, in July 1968, SONY introduced into the U.S. market an all transistor Micro (7-inch) Color TV set. To meet with this growing demand for SONY's color TV receivers, SONY is now working to further increase the production capacity of its color TV receivers.

Sales of SONY's video tape recorders (VTR) have increased substantially over the previous fiscal year. SONY's low-priced VTR is becoming very popular in the areas of home entertainment, education, training, research, sports and industry. To prepare for future VTR requirements, greater emphasis than ever before is

being placed upon the further development of better quality low-priced VTR models as well as more sophisticated units.

In June 1967, SONY's electronic calculator "SOBAX", using hybrid IC was first introduced into Japan. In April 1968, "SOBAX" was marketed in the U.S., and in August it was marketed in Europe. This calculator has been widely accepted in every market. Also, during this fiscal year a new "SOBAX" was marketed. This new model, in addition to its small size, light weight and easy operation, provides an automatic square root function.

SONY has devoted a great deal of effort toward further diversification and quality improvement of its line of both hi-fi components and home entertainment stereo phonographs. As a result of this effort, the sales volume of these products showed a favorable increase both in Japan and in the U.S. One of the interesting models marketed during this fiscal year has been SONY's turntable system which for the first time incorporates SONY's new semiconductor "SMD". This has made possible feathery automatic tone arm return.

The company's efforts to strengthen its overseas sales network are being actively pursued. On May 22, 1968 SONY (U.K.) Limited, a new subsidiary of SONY Overseas S.A. was incorporated in London, England. On May 31, 1968 SONY Hawaii Inc., another new subsidiary of SONY was incorporated in the State of Hawaii, U.S.A.

To SONY, the fiscal year ended October 31, 1968 saw the expansion of all existing product lines, the enlargement of its sales network and the successful introduction of numerous new

products. Management is determined to accelerate many existing programs and to undertake new ones in areas vital to SONY's continuing growth and prosperity.

Sincerely yours,

Masaru Ibuka

Masaru Ibuka
President

Akio Morita

Akio Morita
Executive Vice President

February 1, 1969

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CONSOLIDATED

ASSETS	In millions of yen		Translation into thousands of U.S. dollars (Note 1)	
	October 31			
	1968	1967	1968	1967
CURRENT ASSETS:				
Cash (Note 6)	¥ 5,544	¥ 4,949	$ 15,400	$ 13,747
Time deposits, available within one year	5,808	5,208	16,133	14,467
Marketable securities, at cost which approximates market	1,992	802	5,533	2,228
Notes and accounts receivable, trade (Note 6)	14,518	10,180	40,328	28,278
Allowance for doubtful accounts	(531)	(389)	(1,475)	(1,080)
Inventories (Notes 3 and 6)	20,283	14,465	56,342	40,180
Prepaid expenses and other current assets	1,307	825	3,631	2,292
Accumulated income tax prepayments	1,424	1,172	3,955	3,255
Total current assets	50,345	37,212	139,847	103,367
INVESTMENTS AND ADVANCES, at cost or less:				
Associated companies (Note 4)	780	179	2,167	497
Others	1,646	1,508	4,572	4,189
	2,426	1,687	6,739	4,686
PROPERTY, PLANT AND EQUIPMENT, at cost (Notes 5 and 6):				
Land	4,909	4,539	13,636	12,608
Buildings	13,731	11,241	38,142	31,225
Machinery and equipment	9,934	8,024	27,594	22,289
Construction in progress	1,468	804	4,078	2,233
	30,042	24,608	83,450	68,355
Less - Accumulated depreciation	8,679	6,926	24,108	19,238
	21,363	17,682	59,342	49,117
OTHER ASSETS	3,046	1,824	8,461	5,066
	¥77,180	¥58,405	$214,389	$162,236

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BALANCE SHEET

LIABILITIES	In millions of yen 1968	1967	Translation into thousands of U.S. dollars (Note 1) 1968	1967
	October 31			
CURRENT LIABILITIES:				
Bank loans (Note 6)	¥22,182	¥16,252	$ 61,617	$ 45,144
Current portion of long-term debt	1,013	1,408	2,814	3,911
Notes payable, trade	9,683	7,225	26,897	20,069
Accounts payable, trade	3,567	2,095	9,908	5,820
Notes payable, construction	931	1,041	2,586	2,892
Notes and accounts payable, associated companies	4,420	2,156	12,278	5,989
Accrued income and other taxes	2,358	1,944	6,550	5,400
Other accounts payable and accrued liabilities	6,404	4,349	17,789	12,081
Dividends payable	489	408	1,358	1,133
Total current liabilities	51,047	36,878	141,797	102,439
LONG-TERM DEBT (Note 6)	1,769	1,882	4,914	5,228
LIABILITY FOR SEVERANCE INDEMNITIES (Note 7)	2,166	1,461	6,016	4,058
ACCUMULATED INCOME TAX REDUCTIONS (Note 8)	1,444	968	4,011	2,688
STOCKHOLDERS' EQUITY:				
Common stock ¥50 par value (Note 9) -				
Authorized - 160,000,000 shares				
Issued 1967 - 54,000,000 shares		2,700		7,500
1968 - 64,800,000 shares	3,240		9,000	
Capital in excess of par value (Note 9)	3,987	4,527	11,075	12,575
Legal reserve (Note 10)	809	708	2,248	1,967
Retained earnings appropriated for special allowances (Note 8)	2,547	1,652	7,075	4,589
Retained earnings	10,171	7,629	28,253	21,192
	20,754	17,216	57,651	47,823
COMMITMENTS AND CONTINGENT LIABILITIES (Note 11)				
	¥77,180	¥58,405	$214,389	$162,236

S O N Y   C O R P O R A T I O N

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CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

	In millions of yen		Translation into thousands of U.S. dollars (Note 1)	
	Year ended October 31			
	1968	1967	1968	1967
Sales and other income:				
Net sales -				
Domestic	¥30,156	¥24,303	$ 83,767	$ 67,509
Export	41,057	34,100	114,047	94,722
	71,213	58,403	197,814	162,231
Operating revenue and miscellaneous income	1,443	1,367	4,008	3,797
	72,656	59,770	201,822	166,028
Cost and expenses:				
Cost of sales	46,218	36,756	128,383	102,100
Selling, general and administrative	16,608	13,566	46,133	37,683
Interest	1,390	1,281	3,861	3,558
Other	365	322	1,014	895
	64,581	51,925	179,391	144,236
Income before income taxes	8,075	7,845	22,431	21,792
Income taxes (Note 8):				
Current	3,341	3,378	9,280	9,384
Net charges arising from book-tax timing differences	224	215	623	597
	3,565	3,593	9,903	9,981
Net income (per share: 1968 - ¥69.6 or 19.3¢; 1967 - ¥65.6 or 18.2¢) (Note 9)	4,510	4,252	12,528	11,811
Retained earnings:				
Balance, beginning of period	7,629	4,726	21,192	13,128
Cash dividends applicable to earnings for the period (per share: 1968 - ¥15.0 or 4.2¢; 1967 - ¥12.5 or 3.5¢) (Note 9)	(972)	(810)	(2,700)	(2,250)
Appropriations for special allowances, net of estimated future taxes (Note 8)	(895)	(522)	(2,486)	(1,450)
Transfer to legal reserve (Note 10)	(101)	(17)	(281)	(47)
Balance, end of period	¥10,171	¥ 7,629	$ 28,253	$ 21,192
Depreciation included in cost and expenses	¥2,111	¥1,665	$5,864	$4,625

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NOTES TO FINANCIAL STATEMENTS

1 - U.S. DOLLAR AMOUNTS

The U.S. dollar amounts are included solely for convenience and are stated, as a matter of arithmetical computation only, at the rate of ¥360 equals U.S. $1, the official parity rate. These translations should not be construed as representations that the Japanese yen amounts actually represent, or have been or could be converted into, U.S. dollars.

2 - PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the parent company and with minor exceptions its totally held subsidiary companies. The parent company's equity in the net assets of its consolidated subsidiary companies exceeds its investment therein by ¥2,028 million ($5,633 thousand) at October 31, 1968.

The foreign currency accounts of consolidated foreign subsidiary companies were translated into Japanese yen at rates approximating prevailing quoted rates of exchange. No historical base translations are required due to the nature of the accounts involved.

3 - INVENTORIES

Inventories at October 31, 1968 comprise the following:

	Yen (millions)	Dollars (thousands)
Finished products	¥13,518	$37,550
Work in process	3,800	10,556
Raw materials and purchased components	2,965	8,236
	¥20,283	$56,342

Inventories are valued at cost, not in excess of market. Finished product costs are determined on a "first-in, first-out" basis and other categories are determined on the basis of average cost.

4 - INVESTMENTS AND ADVANCES - ASSOCIATED COMPANIES

The investments in and advances to associated companies at October 31, 1968 include the carrying value (substantially at cost) of capital shares of associated companies amounting to ¥547 million ($1,519 thousand). The company's equity in the net assets of the associated companies as shown by their financial statements approximates the carrying value of its investment therein at October 31, 1968.

5 - PROPERTY, PLANT AND EQUIPMENT

Depreciation of property, plant and equipment is computed by the declining balance method at rates based on estimated useful lives of the assets according to general class, type of construction and use. It is not practicable, because of the wide varieties of properties within each major class, to list the individual rates used; the overall effective rates for the year ended October 31, 1968 were 6.8% on buildings and 14.1% on machinery and equipment.

6 - BANK LOANS AND LONG-TERM DEBT

Bank loans of ¥22,182 million ($61,617 thousand) are represented by short-term notes and acceptances payable, generally 60 to 180 days, bearing interest, principally at 3.4% to 6.8% per annum. Short-term notes of ¥300 million ($833 thousand) are secured by a pledge of notes receivable aggregating ¥295 million ($819 thousand) and demand bank deposits of ¥5 million ($14 thousand). Under the terms of general security agreements relating to certain short-term notes payable and acceptances payable aggregating ¥6,679 million ($18,553 thousand), the lending banks retain a security interest in inventory and accounts receivable. Short-term notes are generally issued to banks under written basic agreements which provide, with respect to all present or future loans with such banks, that collateral (including sums on deposit with such banks) or guarantors will be furnished upon the bank's request and that any collateral furnished, pursuant to such agreements or otherwise, will be applicable to all indebtedness to such banks.

Long-term debt at October 31, 1968, representing obligations principally to banks and insurance companies, comprise the following:

	Yen (millions)	Dollars (thousands)
Loans, due 1969 to 1998 with interest ranging from 6.4% to 9.1%:		
Secured by mortgages on property, plant and equipment	¥2,268	$6,300
Not secured	339	942
	2,607	7,242
Less - Portion due within one year	1,013	2,814
	1,594	4,428
Deposits received on lease	175	486
	¥1,769	$4,914

7 - LIABILITY FOR SEVERANCE INDEMNITIES

Employees severing their connection with the company are entitled, under most circumstances, to lump-sum indemnities based on current rate of pay and length of service. With few exceptions, the minimum payment is an amount based on voluntary retirement. Income tax regulations permit a deduction, generally speaking, equal to only 50% of the periodic accrual for such minimum payments plus actual payments in excess of the allowed provision. In many cases, employees receive significant additional benefits because of conditions such as involuntary retirement, death, etc.

The annual provision for employees' severance indemnities is sufficient to state the liability account at the amount which would be required if all employees involuntarily retired at the end of such period. Accrued provisions are not funded.

With respect to directors and officers, the company provides for lump-sum severance indemnities on a basis which is similar to that used for employees. While the company has no legal obligation, it is a customary practice in Japan to make lump-sum payments to a director or officer upon retirement. The company is of the opinion that its annual provision is being made on a reasonable basis and is adequate to make such future payments as may be approved by the stockholders.

In previous years, the estimated future tax benefit arising from the current non-deductible portion of the annual accrual was treated as a direct reduction of severance indemnity expense and the related accrued liability. In the accompanying financial statements, the accumulated future tax benefit is included as a deduction in the balance sheet caption "Accumulated income tax reductions" and in the statement of income the amount applicable to the current year is included as a deduction in "Net charges arising from book-tax timing differences"; amounts applicable to the preceding year have been restated for comparative purposes.

The charge to income for severance indemnities was ¥796 million ($2,211 thousand) for the year ended October 31, 1968 and ¥365 million ($1,014 thousand) for the year ended October 31, 1967.

8 - INCOME TAX AND RETAINED EARNINGS APPROPRIATED FOR SPECIAL ALLOWANCES

The company is subject to a number of different income taxes, which, in the aggregate, indicate an effective tax rate of approximately 47%.

The tax regulations, however, include a limitation on the amount of the deduction for severance indemnities and stipulate various tax credits, among which is a credit against the corporation tax equal to 9% of dividends paid (as defined) from earnings of the period and a tax credit for a maximum of 10% of the corporation tax in those instances where there has been an increase in research expenses (as defined).

The company is permitted to deduct for income tax purposes, if recorded on the books, certain special allowances which are not required for financial accounting purposes. As the effect of the special allowances is a deferral of income taxes, the company has provided an amount equivalent to the current tax reduction resulting from the deduction of the special allowances. As the special allowances must be recorded in the books of account in full, the remaining portion of such allowances is set forth in the accompanying financial statements as appropriations of retained earnings for special allowances.

In previous years, the amount equivalent to the tax reduction, or additional tax payable, arising from the recording of the provision, or reversal thereof, for special allowances was shown in the income statement as an addition to, or reduction of, estimated future income tax expense - and, current income tax expense reflected all other income taxes including some amounts arising from other book-tax timing differences. In the accompanying statement of income, current income tax expense reflects the amount of income taxes payable for the year and all other income tax expense is included in the net charges arising from book-tax timing differences; amounts applicable to the preceding year have been restated for comparative purposes.

9 - COMMON STOCK AND CAPITAL IN EXCESS OF PAR VALUE

Based upon the resolution of the Board of Directors, which was made in accordance with the Japanese Commercial Code, the company effected a free distribution on November 1, 1967 of 10,800,000 shares of common stock to stockholders of record at October 31, 1967 in the ratio of one new share for each five shares held. The company accounted for the free distribution of shares by the transfer of an amount equal to the aggregate par value of such shares (i.e. ¥540 million or $1,500 thousand) from "Capital in excess of par value" to the common stock account.

The computation of net income and cash dividends per share for the year ended October 31, 1967 as shown in the accompanying statement of income and retained earnings is based on the number of shares outstanding during the year, appropriately adjusted for the above-mentioned free distribution effected on November 1, 1967.

10 - LEGAL RESERVE

The only change in the legal reserve during the year was the appropriation required under the Japanese Commercial Code. No further appropriation (presently a minimum of 10% of dividends paid) is required when the legal reserve equals 25% of capital.

11 - COMMITMENTS AND CONTINGENT LIABILITIES

Commitments outstanding at October 31, 1968 for the purchase of property, plant and equipment and investments amounted to approximately ¥4,011 million ($11,142 thousand).

Rental expense for the year aggregated ¥557 million ($1,547 thousand). A significant portion of such rentals relates to short-term leases, many of which are renewed upon expiration. Obligations under long-term leases are not material in relation to the financial statements of the company.

Contingent liabilities at October 31, 1968 for guarantees given in the ordinary course of business approximate ¥461 million ($1,281 thousand). A law suit and a tax assessment are pending against the company or a subsidiary company. In the opinion of management, such suit and the assessment (which is being contested) are without merit and, if decided adversely, will not involve sums considered material to the consolidated financial position or operating results.

PRICE WATERHOUSE & CO.

SEMPAKU SHINKO BUILDING
35, SHIBA KOTOHIRACHO
MINATO-KU, TOKYO

January 29, 1969

To the Stockholders and
Board of Directors of
Sony Corporation (Sony Kabushiki Kaisha)

In our opinion, the accompanying consolidated balance sheet and the related consolidated statement of income and retained earnings present fairly the financial position of Sony Corporation (Sony Kabushiki Kaisha) and its consolidated subsidiaries at October 31, 1968 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co

SONY

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